The American Trade Balance and Probable Trade Tendencies

By J. Russell Smith
Professor of Industry, University of Pennsylvania.

SUMMARY OF CONTENTS

PERHAPS the most conspicuous thing about the foreign trade of the United States during the war has been the development of an unprecedented trade balance which has changed the United States from a debtor to a creditor nation. The significance of this change is puzzling to many people. Its influence will continue for many years, and an understanding of it is important in the development of foreign trade policy for individuals as well as nations, for the greatest single reconstruction that America faces is the reconstruction of its foreign trade.

CHANGE OF THE UNITED STATES FROM DEBTOR TO CREDITOR

Before the war the United States was always a rich field for the investment of capital because of the numerous opportunities to start enterprises offered by our undeveloped resources. This situation naturally attracted the savings of European countries, particularly Great Britain, because of the comparative lack of attractive investment opportunities in the Old World. The result was a large accumulation of American securities and other property rights in European hands. This financing of American enterprise by foreign lenders meant, in foreign trade, the export of American commodities to cover the interest payments arising from our use of outside capital. In addition the United States has been a large importer of various kinds of services. Foreign ships have carried most of our foreign trade, and most of their cargoes have been insured by foreign companies. Foreign laborers sojourning here made in the aggregate large remittances of earnings to their home countries. This wage remittance virtually constituted the import of labor services. Again, American tourists spent large sums in Europe for supplies and services. All of these items were paid for by the export of commodities from the United States.

This situation is summarized in an article in the *Commercial and Financial Chronicle* of September 21, 1918. According to this article the United States entered the war owing the world about $5,000,000,000 in the form of securities of all descriptions and of property owned outright in the United States by non-resident foreigners. On the other side of the account were the foreign securities and other property owned by American citizens, which amounted to about one and one-half billions. This left the United States a net debtor to the extent of three and a half billion dollars. The net annual outgo to foreign countries (largely in goods, of course), after deducting reciprocal trade in commodities, was, according to the *Chronicle*, about 500 million dollars itemized as follows:

Interest on securities and other property incomes	$175,000,000
Freight charges	25,000,000
Remittances by foreign laborers	125,000,000
Expenditures of American tourists abroad	150,000,000
Insurance premiums and sundries	25,000,000
Total	$500,000,000

The changes in the foreign financial relations of the United States as produced by the urgency of war conditions are shown in this same article somewhat as follows:

Foreign securities and other property owned by Americans at beginning of war	$1,500,000,000	
Net merchandise exportation (including gold and silver), July 1, 1914–July 1, 1918	9,265,000,000	
		$10,765,000,000
American securities held abroad at beginning of war	4,000,000,000	
Other American property owned by non-resident foreigners	1,000,000,000	
		5,000,000,000
Present net balance in favor of the United States		$5,765,000,000

Two factors not mentioned in the foregoing discussion are the expenditures of our soldiers and army abroad and the military supplies that the United States government will sell in Europe as it closes up its affairs there. These factors are mutually offsetting, but not measured. Another heavy American expense lies in payment for the use of European shipping.

Assuming that our foreign credit will amount to $9,000,000,000 by the autumn of 1919, which appears possible, the *Chronicle* article analyzes the interest balance as follows:

". . . . Formerly our annual payments of interest, less income from similar sources, amounted to about 175 million dollars. Now we shall have a net income from that source of about 450 million dollars. Formerly we paid freight abroad annually to the extent of about 25 million dollars. Now it is quite likely we shall have a substantial income from this source.

NET INCOME REPLACES NET OUTGO

"Let us assume that the other items on our annual income and outgo sheet will remain stationary, although it is quite likely that in most cases our income will be increased and our outgo decreased. However, changes in these items are not of sufficient importance to materially affect final results. The net result will be that, while formerly we had a net annual outgo of about 500 million

dollars, we shall in the future have a net annual income of about 175 million dollars." . . . .

With this amount due the United States each year what will be the course of our trade balance in the period beginning with 1920? In order to anticipate this future situation we should see recent happenings in their true light.

THE WAR A TEMPORARY TRADE EPISODE

One aspect of the situation that must affect the foreign trade balance has been too much neglected. Many persons seem to think that this world is made over commercially. It is much more nearly in the position of a ship that upsets in the storm and is then righted. The process is profoundly disturbing, but after the water is pumped out the ship goes on pretty much as before. The astonishing trade balance of the United States was produced by a temporary cause—one that in the trade sense may be called an artificial cause. The sudden transfer of the United States to the creditor column was due to an explosion in Europe—a temporary condition produced by sudden military conditions and not by the gradual working of economic forces. It did not result from any full development of resources such as has long existed between England and Canada or England and Argentina. The United States has not reached the industrial maturity that makes us a normal leader to Britain. Instead of this we had an almost universal stoppage of new industrial construction save for things contributing to the war, and the focusing of human energy on war for a period. This is a most unnatural process in trade and finance. It is equally unnatural in method of purchase. For a time European governments bought supplies here until they had plainly approached the limit of credit with private American lenders. Then the United States entered the war and threw the full force of the government and a wonderful public opinion into the raising of liberty loans. This money was loaned to European governments by the billion and spent in this country by government agencies for goods that we exported to produce the huge trade balance. We, the people of the United States, paid the producer for those goods, Europe promising to pay through our government at some date in the rather distant future. After a comparatively short period of reconstruction we will probably

stop the financing of American exports through loans from the American people to our government to be in turn loaned by it to European governments.

Trade will then come back from the political to the economic basis. What will be this basis?

THE POLICY OF INVESTING ABROAD ALL SURPLUS AND ALL INTEREST DUE

The rehabilitation of Europe, for a time at least, probably will call for continued large imports of American raw materials, and so continue our favorable trade balance and increase our foreign investments. Some financiers have gone so far as to predict that we would continue to maintain a heavy commodity export surplus and annually invest this surplus abroad, together with the interest thereon and the above-mentioned 175 million a year already due us and its annually accruing interest. One sees the fanciful nature of this prediction by noting that it is a problem in compound interest. Here is the way it would work out. Private investors in New York, London or Paris would buy the credits due the United States government and invest in South American or African mines, ranches, railways, etc. These must yield better rates than American investments, say 8 per cent, otherwise they would not be made.

AMOUNTS DUE AT END OF GIVEN PERIOD WITH GIVEN SUM INVESTED ABROAD ANNUALLY AT 8 PER CENT AND ALL INTEREST REINVESTED IN MILLIONS OF DOLLARS

At present	175	500	1,000
End of 1st year	189	540	1,080
End of 5th year	257	734	1,469
5-year total	1,108	3,167	6,335
End of 10th year	337	1,079	2,158
10-year total	2,737	7,822	15,645

As the prophets of indefinite investment expect the United States to invest both its war interest and the big trade surplus we must combine these factors. The 175 million and the 500 million

totals together make 4,275 million in five years, 10,559 million in ten years. The 175 million plus the billion would in five years pile up 7,443 million and in ten years 18,382 million. This is plainly fanciful.

THE POLICY OF INVESTING EXPORT SURPLUS ABROAD WITH RETURN OF INTEREST DUE

The producing capacity of the United States is doubtless such that Americans can make large investments somewhere in the next decade, but it is quite impossible that such an exclusive and constant piling up of both principal and interest abroad as above described should take place. If America continues to invest abroad after war emergencies are over we may expect the process to be gradual and the work to be done by private enterprise rather than by one government loaning to another government. Some persons will make fresh investments and even reinvest their interest. Others will take their interest and at times withdraw their capital. Suppose on the average the interest on foreign investments is regularly returned (chiefly in goods of course) but that the annual surplus of exports *over imports paid for by exports* is invested each year with returns at 8 per cent. This would give the following situation of net trade balance:—

	With Commodity Export surplus of 500 million offset by the annual 175 million of old interest and the annually accruing interest on 500 million dollars invested each year at 8 per cent	With Commodity Export surplus of 1,000 million offset by the annual 175 million of old interest and the annually accruing interest on 1,000 million dollars invested each year at 8 per cent
	Million dollars	Million dollars
1st year	325 +	825 +
2nd year	285 +	745 +
5th year	165 +	505 +
10th year	35 −	105 +
15th year	235 −	295 −

If Russia and the other European countries should have a long period of anarchy and the industrial chaos that would accompany it, we would thereby miss a great opportunity for foreign investment, especially in Russia, and, therefore, one of the greatest opportunities to maintain exports. Chaos in Europe means a quick end of big exports and a quick beginning of an import surplus—provided that our foreign investments stay good and pay their interest.

THE BASIS OF TRADE AS CHANGED BY THE WAR

When the earlier phases of reconstruction are over and the United States government ceases loaning to the European governments, American trade will come back from the political basis to the economic basis. What will this basis be? It will be the pre-war basis modified by the war changes. The war changes will be small factors in trade in comparison to the fundamental economic forces. Trade arises from differences in industry which in turn are due to differences in education of people, in the skill of workers and in their willingness to work, differences in the efficiency of industrial organization and equipment, in character of resources, in the relative abundance of those resources and in its great result, viz., differences in wages and in standard of living. These great bases of trade have not been changed by war as much as some persons at first supposed, and it is even possible that the United States is not to be the net gainer in ability to produce for the foreign market. The United States and Europe will bear much the same general industrial relation to each other that they did before the war, and each will have about the same ratio of labor to resources that it had before the war. The one great difference between the two regions will be that Europe will owe the United States some billions of dollars whereas we owed her billions when the war started.

On December 9, 1918, Secretary McAdoo in a letter to Congress said that of $10,000 million authorized by Congress, as a war measure, for allied loans, $7,608 million had been made available in cash and $611 million represented credits established but not yet available in cash. Further advances for war purposes would run it up to a total of $8,500 million and the secretary asked Congress to permit the extension of time for those previously authorized

loans for one year after the war to cover the remaining $1,500 of the $10,000 million.

Explaining the desirability of this action, Secretary McAdoo wrote to Chairman Kitchin of the Ways and Means Committee, as follows:

"The gross needs of the governments of the Allies from the United States for after-the-war purposes they have estimated at a much greater total than 1,500 million dollars, but I believe investigation will show a considerable reduction in such estimates. A part of their requirements may be provided by the treaty of peace through awards in their favor for reparation either in money or material; a part will be provided out of dollars equivalent of our military expenditures abroad and a part should prove possible for these countries to finance through sales of private credit. A balance, however, is likely to remain which it may be impossible to provide other than by the use of loans from the government of the United States and the above amounts of about $1,500 million should be sufficient for this purpose. . . . .

"From the standpoint of enlightened policy the United States should put itself in position to provide the credits necessary to sell its surplus products until the establishment of normal peace conditions."

This last sentence from the secretary's statement helps to show how unnatural, how forced and, therefore, how temporary are our present unprecedented exports.

Another factor in this trade balance situation with Europe that should be carefully noted is the reduction of our imports from Europe almost to the vanishing point. Owing to the strain of war, they have, for a time, paid us in promises, promises of government to government, rather than in goods as is the common necessity of trade. In fact they have used promises almost to their limit.

In considering the post-war trade conditions that will prevail after a brief period of reconstruction, we should carefully appraise the changes that have occurred in the producing capacity of the various countries as affected by the war. Upon the whole the effort to produce food and war supplies probably has resulted in an increase of total per capita producing capacity for 1910 over that of 1914 in the United States, the United Kingdom, Italy, and all

of the West European neutrals. Belgium and Northern France have been in part devastated but the development of war industries in the uninvaded parts of France plus the reconstruction of 1919 will probably leave her also capable of as much or more per capita production in 1920 than in 1914.

In Germany and Austria there must be great need of repairs but there is also the important industrial fact that there has been great development of machine shops and chemical plants in making munitions. Poland, Russia, Serbia, Roumania and Slovania are regions largely agricultural and doubtless greatly reduced in farm equipment and work animals. Reconstruction there must apparently be slower than in West Europe.

In the war changes brought to West Europe three important things stand out:—

(a) *Europe Has Learned Mass Production of Machinery*

The European munitions industry has compelled the manufacturers of the leading countries of Europe to acquire an industrial method that had before been almost an American monopoly—namely, standardization, interchangeable parts and mass production in the manufacture of wood and metal-machinery, the very basis of a manufacturing industry. The American mower, reaper, automobile, watch, phonograph and other machines have invaded foreign markets because we exceeded Europe in the use of this wholesale method of manufacture. The pressure for munitions has compelled Europe to apply this revolution in her greatly expanded machine shops. Europe has in a measure caught up with America in manufacturing method. This means that the war has raised the ability of a peaceful Europe to compete with the United States, has put her in a better position than she was in comparison to the United States to equip the railroads, highways, mines, fields and factories of foreign lands. There has been no material change in the basis for the production of highly wrought products such as textiles, chemicals, and instruments of precision in which Europe has long led the United States because of the more abundant and more highly skilled labor supply resulting from greater density of population.

(b) *Europe Has Increased Her Use of Agricultural Machinery*

European agriculture has also been improved, especially British agriculture. The farm tractor and other farm machinery have worked a revolution here also, releasing man power for other things. One of the most spectacular changes of the war is the sudden spurt of Britain, that brought her from the position of the greatest food importer to the stage where she can largely supply her own breadstuffs. Many leaders of British opinion have announced the intention of maintaining this agriculture. The economics of agriculture, of trade and of sound national policy make this desirable for England, for she has a home market and excellent agricultural resources. In a statement to the British public on November 22, 1918, Messrs. Lloyd George and Bonar Law said, "The country will need all the food, all the raw materials, all the credit which it can obtain. Agriculture and key industries must be kept." This new British agriculture helps to offset the temporarily reduced agricultural capacity of Russia and East Central Europe, and for the next decade promises to reduce Europe's net demand for import grain.

(c) *Man Power Shortage in Europe and America Much Alike and Largely Replaced by Machinery and Improvements in Efficiency*

In man power, Europe has killed 10,000,000 men, but she kept home about 3,000,000 people who would normally have come to the United States. For thirteen years before the war we received on the average 784,000 immigrants net. During the war we received 102,000, a difference due to the war of 682,000 per year, or for the four years of the war over 2,750,000, or more than Germany or France or Britain lost in the war, although the war loss was of men, and our immigrants were partly women and children. The stopping of the European emigration during the war has been a substantial factor in mitigating her man-power loss. For the future the labor supply for America from immigration is uncertain. We have a more stringent immigration law than we have ever had before.

The conscript armies of the Central Empires, France, Italy and Russia with their millions at one, two and three years service, have kept constantly in military training a number of men nearly or quite equal to the total soldier death losses of the war. The

abolition of the conscript army would at once nearly or quite replace Europe's man power. The support of these millions of non-producers in the barracks has been another burden that may be lifted from European industry.

In one sense there has been no loss of man power, for the improvements in machinery, the improvements in industrial organization and manufacturing method, the greater work by women —all those have much more than replaced the men who have disappeared in both Europe and America, and Europe has probably surpassed the United States in all four of these respects— improvements in machinery, in manufacturing method, in industrial organization and in the training of women workers. Upon the whole Europe's net labor shortage due to the war may be surprisingly little more than that of the United States.

It therefore appears clear that, except for anarchy, Europe is upon the whole about as able as ever to compete with the United States after a brief period of reconstruction, for which the United States will supply important raw materials or credit.

After this reconstruction period we may expect the pre-war economic relationship between Europe and the United States to resume, save for the facts of debt to the United States and the increased European ability to compete in the manufacture of machinery. That pre-war economic relationship was one in which Europe loaned to the United States; now she owes us money, a strong reason for exporting to us. She loaned to us in the pre-war period because the United States was such a good field for investment. The United States is still a good field for investment.

America as a Field for Investment and its Influence on the Trade Balance

In the post-war as in the pre-war period the United States with its great unused resources of land, mine and forest will continue to be an excellent place for the starting of enterprises and, therefore, for the investment of capital, so that the prediction of a great exportation of productive material for foreign investment may not come true and we may instead have a surplus of imports, due in part to the industrial development of our own resources rather than of foreign resources.

In this matter of capital and surplus we should constantly keep

in mind the distinction between *governments* and *peoples*. The British government and the British nation are a case in point. The government is heavily in debt, chiefly to its own people. Payment on this debt will transfer money from one British pocket to another. They have borrowed a few billion dollars from the United States but they have loaned to France and Italy and they have settlements coming from Germany. Meanwhile it is generally agreed that Britain's producing capacity, and therefore her capacity to export capital, is greater than ever. Britain, therefore, appears likely to resume promptly her old function of exporting capital and the resources of the United States, having waited for the last four years, may attract that capital as they did before the war. In considering these problems it should be remembered that we are in a situation with many new and uncertain elements, any one of which may change the whole situation. However, we must take action and that compels us to weigh all the factors we can in the great tangle of new and untried political, financial and industrial elements.

THE REDUCTION OF CAPITAL THROUGH FEAR OF WAR

The amount of surplus goods, that is to say, the amount of capital for investment in the world, and therefore the amount of real wealth in the world may be substantially reduced if the fear of war makes a widespread desire for industrial preparedness. If, as a possible war preparation, England, France, the United States and other countries start in to develop and maintain industries for which they are at an economic disadvantage, it will have a national result exactly like that produced by a conscript army. For example, shall the United States use rich manganese ores from Brazil, or poor ores from the home country? If we adopt the latter policy it will need two dollars of investment in America to one dollar in Brazil, two days of labor in America to one day of labor in Brazil. It will mean higher prices and therefore less riches in the United States through the failure to develop foreign investment and foreign trade.

GERMAN PAYMENTS AS A TRADE FACTOR

Germany may decide the export surplus of her enemies. If they compel her to pay for the war destruction or the war costs

or both, she may at the start borrow a little in neutral countries if she can establish the credit. But in the main, Germany can pay her enemies in only one way—goods, exported goods. If she had all the gold in the world, other nations would have no money, and it would in any case be only a drop in the bucket. What then? Goods. The facts of trade tend to make us forget that gold, like all other money, is but a medium for the exchange of goods. The only exception is when the gold happens to be the product of a mine in which case like coal it is goods, for the country first producing it. Countries settle trade differences with gold, but they can get the gold only by digging it out of the ground or by buying it with goods. As Germany is not a gold producer, she can get gold only by buying it with goods—with exports.

Her enemies wish to make her pay for the war. How may it be done? War claims against Germany may be treated in four different ways:

(a) *She May Be Required to Pay Money Secured by Selling Her Exports in the World Market.*
(b) *She May Be Required to Deliver Goods Directly to Her Enemies.*
(c) *She May Be Boycotted.*
(d) *German Labor May Be Utilized in Reconstruction Work.*

(a) *Money Payment*

This merely means exports, selling abroad. Goods will be used to purchase bills on London, Paris, Brussels, or New York, and these bills will be delivered to the representatives of the collecting country or countries. By this process, Germany may send the goods to neutrals and transfer the credit to England or France. Thus she may send cloth and machinery to Argentina in payment for wheat and meat that went to England or France. France paid Germany in 1871–73 chiefly with bills on London, but it was none the less a payment with exports, of which France showed at the time a distinct surplus over imports. Germany, receiving all these credits, showed a financial inflation and a speculation which, according to many authorities helped bring on the panic of 1873, and made its effects in Germany much more severe than in France.

Because of these war settlements Germany may be compelled to

show an export surplus of a billion or two per year for a term of years. If she does do this other countries will find it difficult to do the same thing at the same time, for Germany will by this process become a country of low prices, therefore, a country of low wages, a country without luxury. It will be most difficult for countries with higher prices and higher wages to compete with Germany in neutral markets in the sale of commodities where the competition is even: as in chemicals, textiles, machinery and other metal manufactures. The United States and the Allies will have high prices due to the inflation of war loans. Germany will probably have to repudiate all of her internal debt, and therefore her currency will not be inflated. This contrast will make all countries having an inflated currency extra good markets for German goods. By sales in those markets Germany will get credits to send to London and Paris to pay the war debts of those countries. Germany will in a sense be giving the goods away and the rest of the world will be trying to sell them in competition with her. The result of such a competition is plain. It will make a lower price level throughout the world, because it will increase supplies and large supplies always tend to reduce prices also. After ten or twenty years of paying for restoration Germany will have the greatest export trade ever seen except our recent war trade. She will have had to build up a trade first to get the credits to pass to her enemies. Her enemies will have the credits but Germany will have the trade.

Some people are much alarmed at this prospect. A part of this fear arises from the widespread belief that exports are necessarily a fine thing for a country and imports necessarily a bad thing. This eighteenth century idea called mercantilism was held so strongly by Napoleon Bonaparte that he freely permitted England to import grain from the Baltic in 1810 and 1811, thinking that he was thereby injuring her. There are elements of possible injury to the countries receiving heavy German payments but there are probably ways by which most of the injury can be avoided.

If we look at it in its simple economic light, this payment looks good, very good. For a term of years Germany becomes the servant of other nations to the extent of billions of dollars worth of goods which she produces and sells for their account, turning the

money over to them,—wealth, national wealth. That certainly looks good. It would undoubtedly help in the payment of national debts. England and France would hand money over to their citizens in exchange for bonds. The Belgian government could pay for the bread the Belgian Relief Commission distributed through the terrible years of war.

Here is a place where we must deal with the distinction between the government and the citizens of the country. There are two kinds of danger in this situation—one industrial and the other financial. The industrial danger lies in the possibility of the citizens living on this restoration fund for a time and getting out of the habit of supporting themselves so that when the payments end they would be in the position of the rich young man who lived on his father's money while it lasted and had not learned how to support himself when it was suddenly gone.

If the people of the fund-receiving country could keep up their work and their industries just the same this difficulty would not arise. This, however, is very difficult or impossible to guarantee. It depends on the individual choices of too many people. Some prefer to work and to save; others prefer to work some and to spend. Then from time to time industrial depression, the greatest ogre of modern industrialism, throws millions out of work whether they will or no. Here is a point where the financial danger of the restoration payment aggravates the industrial danger. It may tend to increase panics in the receiving countries as did the French payments to Germany 1871–73.

There is little doubt that the receipt of hundreds of millions a year of foreign credits by England, France, Belgium and Italy will be a menace by making speculation, inflation and panic that will require a careful and vigorous control of governmental finances that are already overinflated with war loans—paper money in fact. Undoubtedly one part of this financial control should be a continued, careful inspection and licensing of capital issues in all the countries receiving German money and probably in the United States also.

The ultimate industrial danger from the German restoration fund is that Germany will finish her payments with a huge industry and thoroughly established trade outlet for that industry, while her enemies have neither the industry or the outlet. This danger

if it is a danger, can be partly avoided by having the payments on the fund taper off, declining after a time at a small percentage each month until they gradually disappear. Under no condition should the rapidity of payment be left to Germany. In 1871–73, France placed Germany at a disadvantage by handing her money faster than she could digest it. If Germany were now left free to pay as she chooses she may seriously injure world finance.

The gradual ending of the payments would let international trade and industry make a gradual adjustment to the great change, so that its ending would be unnoticed, but the political effects of such a long drawn process might be world destroying.

A gradual ending would also dovetail with a process of foreign investment. The restoration fund should be and probably will be largely invested in foreign countries. German cloth, cement, machinery, glass, paper and general consumption goods may now go to Spain for French and Belgian account, and let French and Belgian financiers resume the work on hydro-electric, irrigation, power and public service enterprises that stopped so suddenly in 1914 when French and Belgian supplies were cut off by war paralysis. The building of a railroad in Brazil means that somebody furnishes equipment for the road and the goods used by the men, their families and the mules which do the work of building the road. Thus Germany might build a railroad in Brazil for English account by sending cars, rails, steam shovels, dynamite, cement, and locomotives to Brazil. She could also send clothing, shoes, pocket knives, playing cards and phonographs for the men and also gasoline, tobacco, flour, and bacon, mules and bales of hay which she might secure in the United States, Argentina and Brazil, sending potash to those countries in payment. The financial items in the transaction would be wages paid and certain pieces of paper, bills of exchange, written in terms of gold. Thus the surplus exports which produce Germany's restoration fund may be used to equip enterprises in Russia, Asia Minor, Brazil and even in the United States for the account of English, French and Belgian investors who will fatten their imports with the return from these investments. The income from these investments should gradually mount as the annual payment of restoration money declines, so that its ending would be nearly unnoticed. The period of payment must end, however, with Germany pos-

sessed of large producing capacity and large exports while England and France will in all probability have relatively small exports and large imports—this surplus of imports meaning, of course, that the nations were rich with foreign investments on which they were receiving returns.

The Allies, fearing the development of German foreign trade even when they get a good part of the proceeds, may try to get settlement from Germany without permitting her to build up *foreign trade connections.* With this end in view, they might have her send goods to themselves.

(b) *Delivery of Produce by Germany Directly to Allied Governments*

This would in part keep Germany from developing trade connections and good will, which are very important, but she would *be compelled to have* the producing capacity and there is little reason to think that she could be compelled to pay as much in kind as she could in cash. A government could easily take potash, sugar, potato flour, rails, plain cloth, standard machines and standard bulk chemicals, but it is difficult to conceive of a government taking toys, women's wearing apparel, ribbons, pocket knives, cameras, drugs and perfumery—types of the best income-yielding export trade. Therefore, payment in kind only amounts to a renunciation of a large part of the possible payment.

(c) *Boycotting Germany*

Some people are taking the position that they will punish Germany by not using German goods. This is the exact opposite of receiving restoration money. It is an extreme form of the renunciation of German restoration money. It means, in short, that we have chosen to do things for ourselves rather than have Germany do them for us. It is more nearly an expression of feeling than of thought.

(d) *Reconstruction by German Labor*

Perhaps the safest thing that could be done would be the keeping of the German prisoners for the actual physical work of the restoration of France and Belgium. They could be relieved by other Germans. They could receive visits from their families, or even have members of their families with them. They could be fed and clothed from home, but this given number of Germans

would stay in the war area and work until restoration was complete. This would leave the man power of France and Belgium free to restore their shattered trade. It would be the policy with the least possible trade danger. Unfortunately it can account for only a small part of the war cost, most of which, is for a past transaction and if paid must be in some kind of international payment.

Whatever the form of German payment, if she pays, it will be through exports, and export surplus, to which the world trade must adjust itself in accord with economic law rather than political edict. Trade can violate economic law only by paying an economic penalty.

AUTOMATIC FACTORS IN TRADE SETTLEMENT

Certain economic conditions tend automatically to produce certain results, regardless of the laws of nations.

The way in which trade situations tend to check and correct themselves is well shown by the derangement of exchange that prevailed during the war when the United States would not export gold and could not export goods. The *Annalist*, New York, November 4, 1918, said:

"We have always had a balance in our favor in foreign trade, and we are ambitious to increase our exports. How are foreign countries going to settle balances in our favor? We have seen since we got into the war a very serious derangement of the exchanges, because gold was no longer available for settling balances. At this very time a man in Canada who has a payment to make in the United States must pay about $2 per $100 for exchanges. Only a few months ago a resident of this country who had a bill to pay in Spain was obliged to pay about $150 to get a draft for $100. Of course such conditions are ruinous to business relations. No trade could stand that in normal times. How, then, can we hope to increase our exports or even collect the interest payments due us, not to speak of payments on the principal?"

THE CHANGE OF UNITED STATES FROM EXPORTER TO TRADER

Many students of trade and finance are agreed that economic forces, of which the Spanish case above mentioned is a type, will compel the United States in a few years to do as the investor na-

tion does—import more than she exports, as England, investor nation, has done for many years. This will probably begin after the first urgent calls of famine and reconstruction in Europe have been met by American exports, which until that time will continue larger than imports and increase our investments and our prospect of future returns.

The arrival of this condition of import surplus will doubtless produce many readjustments in America, for some of us have naturally come to feel that many of the temporary industrial changes produced by the war were permanent. We have, because of loans, largely government loans, been an exporter to a pleading world, the most extensive exporter ever seen. The history of trade during the war is the history of peoples begging the United States for goods and also the history of the scientific organized efforts of the American government to reduce trade with the neutral world that we might concentrate our industrial power on the war. The list of great increases in our exports between 1914 and 1917 shows how astonishingly the war affected our trade, either by taking our produce or by giving us the chance to supply temporarily the markets normally supplied by Europe.

	1914 Export value million dollars	1917 Export value million dollars
Brass and manufactures of	4	86
Explosives	6	802
Firearms	3	95
Zinc	.4	65
Copper and products	146	322
Machinery	115	261
Automobiles	32	118
Horses and mules	4	86
Petroleum and products	157	246
Breadstuffs	165	588
Meat and dairy products	146	403
Sugar and molasses	4	81
Leather and tanned skins	36	108
Leather manufactures	20	43
Cotton manufactures	51	136
	889.4	3,440

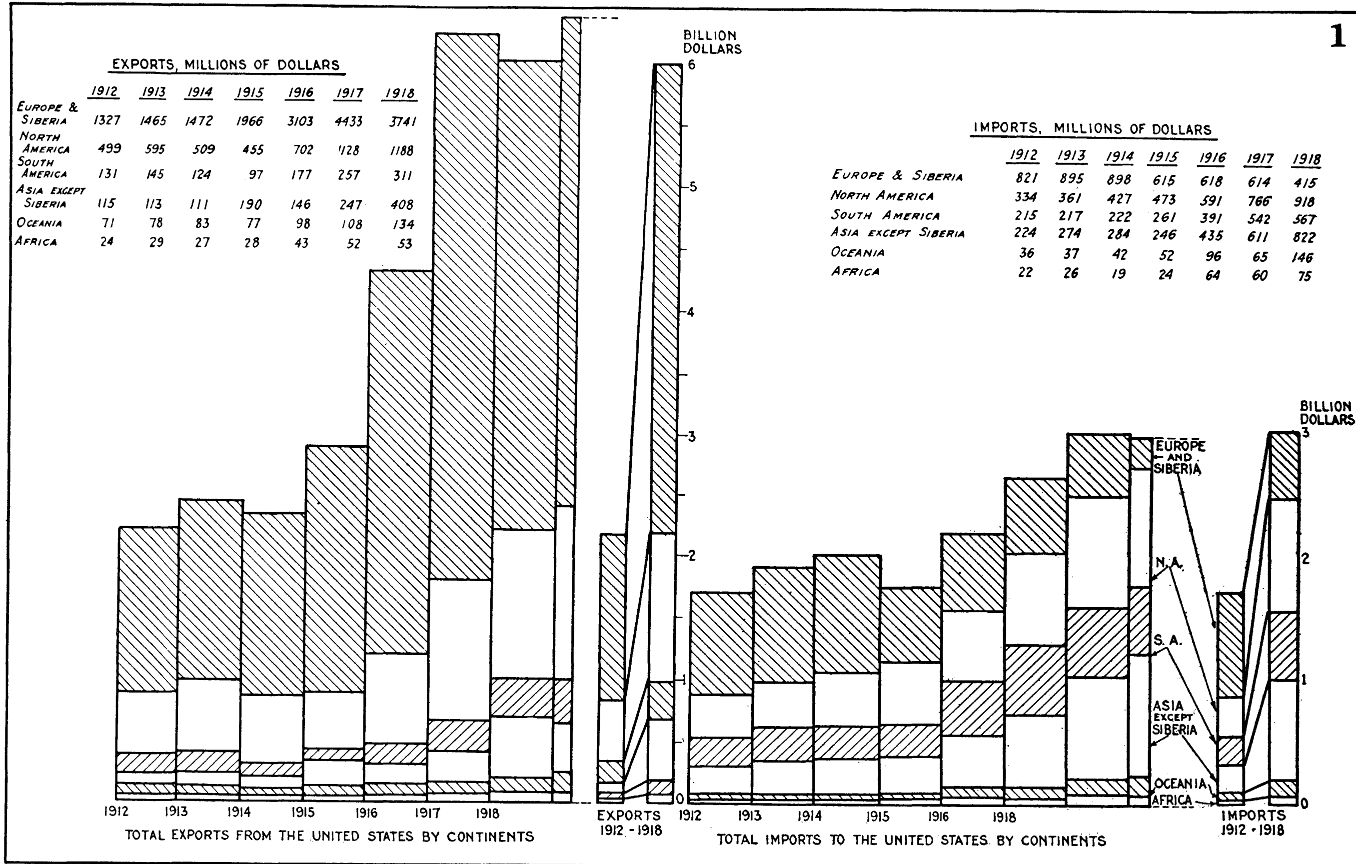
The export increase in these fifteen classes alone in three years amounts to 2,550 millions—a sum greater than the entire export of 1914.

With the end of our exports for reconstruction, *financed by loans*, government and private, we will reach the end of our unparalleled orgy of exports. We will, of course, continue to export but we will no longer take pay in promises and feel the pinch of war poverty. We will take pay in goods and services, and have present wealth rather than future wealth. We have for a time been merely an exporter with incidental imports. We must again become a trader, buying as well as selling, importing as well as exporting. This will be a great change from the past four years. The greatest single reconstruction that America faces is the reconstruction of her foreign trade.

UNITED STATES FOREIGN TRADE

BRIEF SUMMARY for 1912–1918

List of Graphs and Tables



EXPORTS, MILLIONS OF DOLLARS

	1912	1913	1914	1915	1916	1917	1918
Europe & Siberia	1327	1465	1472	1966	3103	4433	3741
North America	499	595	509	455	702	1128	1188
South America	131	145	124	97	177	257	311
Asia except Siberia	115	113	111	190	146	247	408
Oceania	71	78	83	77	98	108	134
Africa	24	29	27	28	43	52	53

IMPORTS, MILLIONS OF DOLLARS

	1912	1913	1914	1915	1916	1917	1918
Europe & Siberia	821	895	898	615	618	614	415
North America	334	361	427	473	591	766	918
South America	215	217	222	261	391	542	567
Asia except Siberia	224	274	284	246	435	611	822
Oceania	36	37	42	52	96	65	146
Africa	22	26	19	24	64	60	75

Shows that the greatest war change in our foreign trade has been the increase in exports to Europe and the decline in imports from Europe. Imports from Asia and South America have also increased greatly.

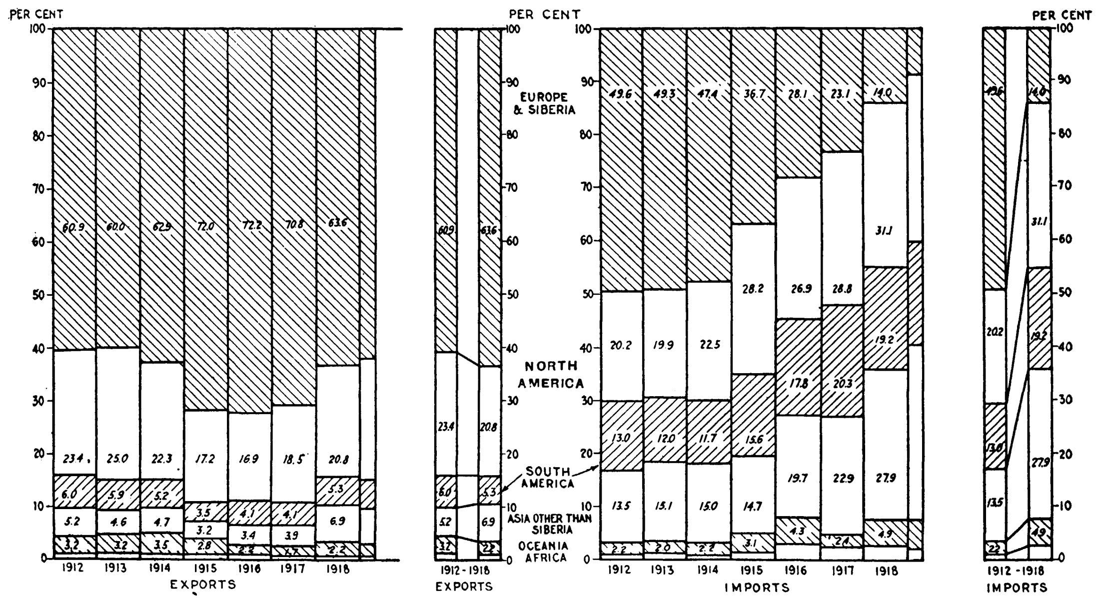
PERCENTAGE AND VALUE OF THE TRADE OF THE UNITED STATES WITH THE VARIOUS CONTINENTS, FISCAL YEARS 1912 - 1918. **2**

EXPORTS FROM THE UNITED STATES TO ALL CONTINENTS BY VALUE (MILLION DOLLARS) AND PERCENTAGE OF TOTAL

	1912	1913	1914	1915	1916	1917	1918	1912	1913	1914	1915	1916	1917	1918
Europe & Siberia	1342	1480	1487	1994	3130	4454	3772	60	60	62	72	72	70	63
North America	516	617	528	477	733	1163	1237	23	25	22	17	16	18	20
South America	132	146	124	99	180	259	314	6	5	5	3	4	4	5
Asia other than Siberia	116	113	112	91	147	250	412	5	4	4	3	3	3	6
Oceania	71	79	83	77	98	109	134	3	3	3	2	2	1	2
Africa	24	29	27	28	43	52	55	1	1	1	1	1	.8	.9

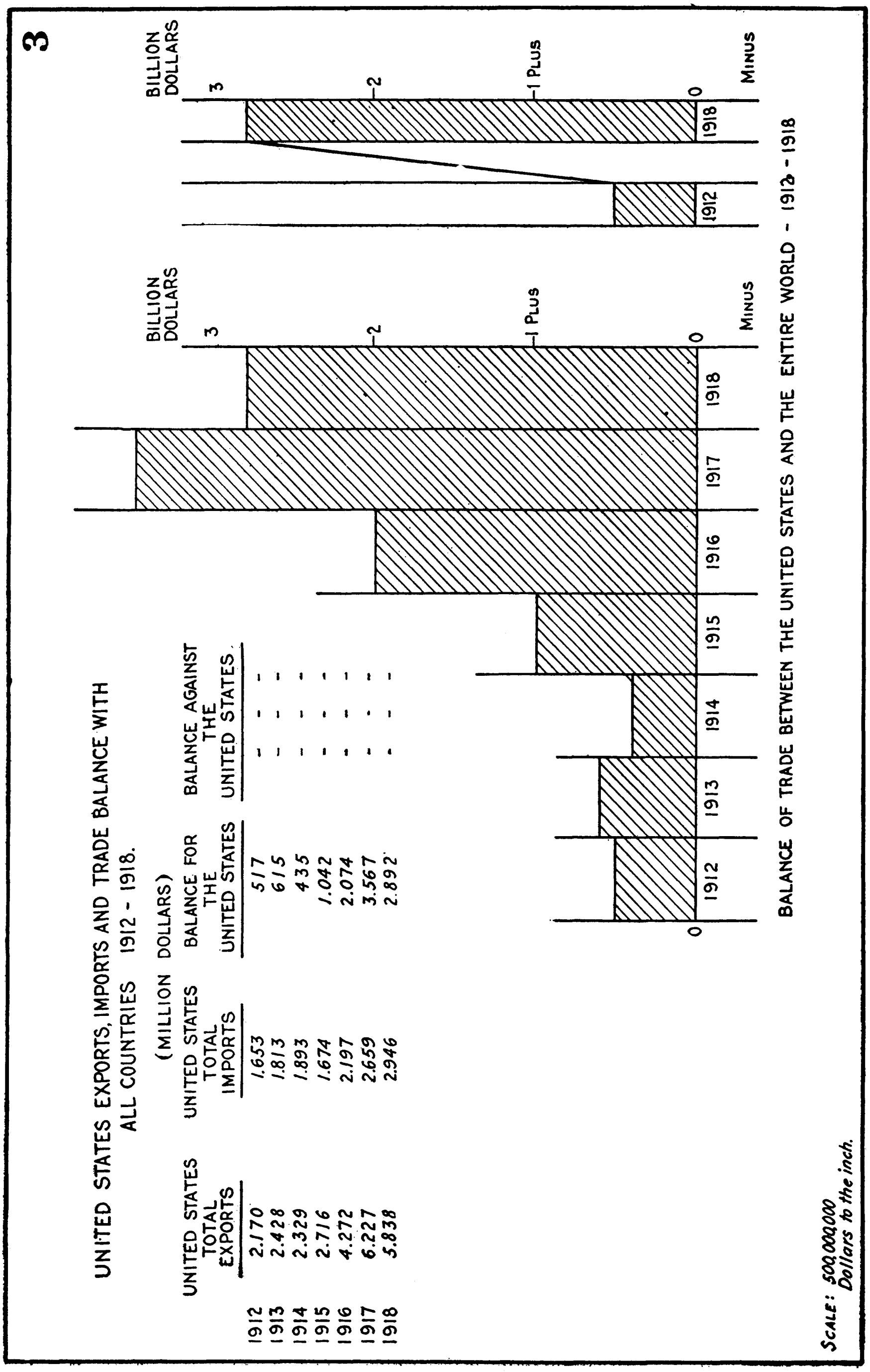
IMPORTS INTO THE UNITED STATES FROM ALL CONTINENTS BY VALUE (MILLION DOLLARS) AND PERCENTAGE OF TOTAL

	1912	1913	1914	1915	1916	1917	1918	1912	1913	1914	1915	1916	1917	1918
Europe & Siberia	820	895	898	615	618	614	415	49	49	47	36	28	23	14
North America	334	361	427	473	591	766	918	20	19	22	28	26	28	31
South America	215	217	222	261	391	542	567	13	12	11	15	17	20	19
Asia other than Siberia	224	274	284	246	434	611	823	13	15	15	14	19	22	27
Oceania	36	37	42	52	96	65	146	2	2	2	3	4	2	4
Africa	22	26	19	24	64	60	75	1	1	1	1	2	2	2



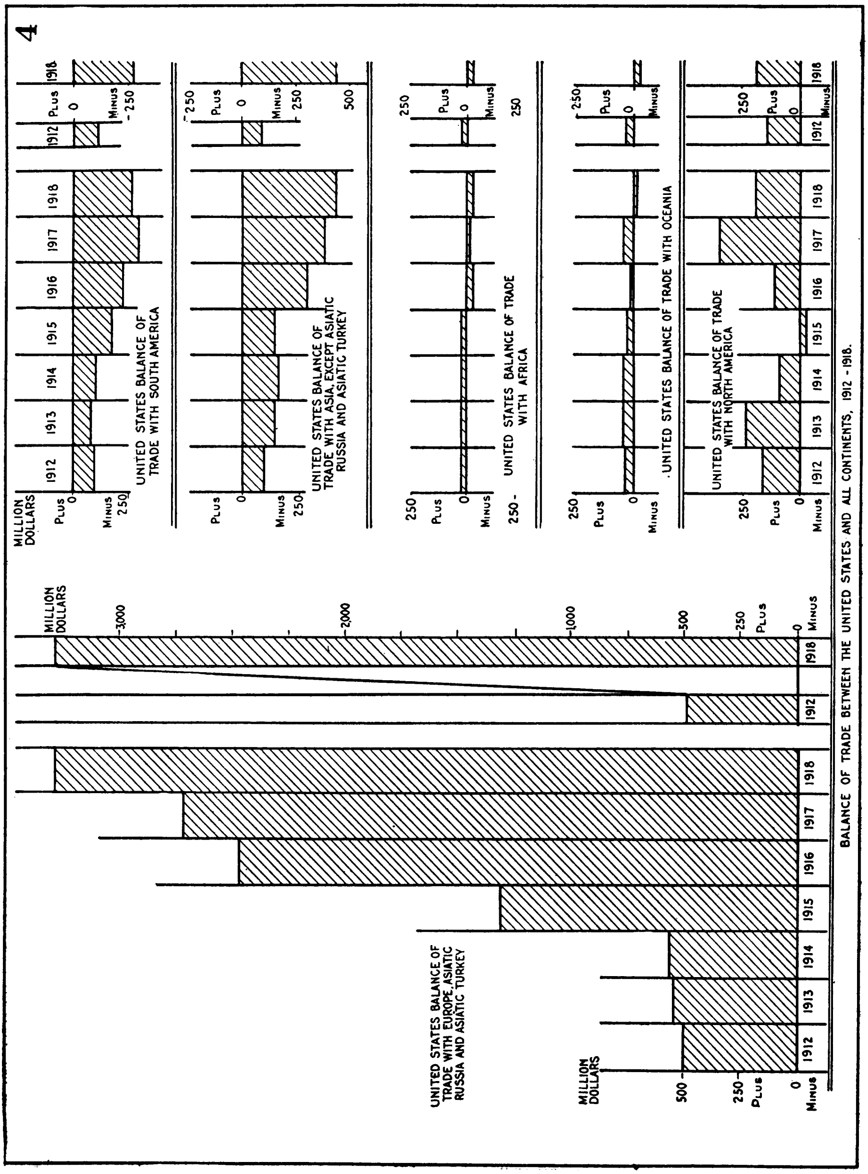
UNITED STATES EXPORTS AND IMPORTS BY CONTINENTS FOR FISCAL YEARS 1912-1918 AND JULY - SEPTEMBER 1918, PERCENTAGE.

Imports and exports on a percentage basis show that the most conspicuous change has been a decline in imports from Europe and an increase from every other continent. Some return toward pre-war proportions may be expected. The fairly constant proportions for our exports to the various continents show that we have been supplying the warring countries and also temporarily supplying the distant markets they have been too busy to supply.



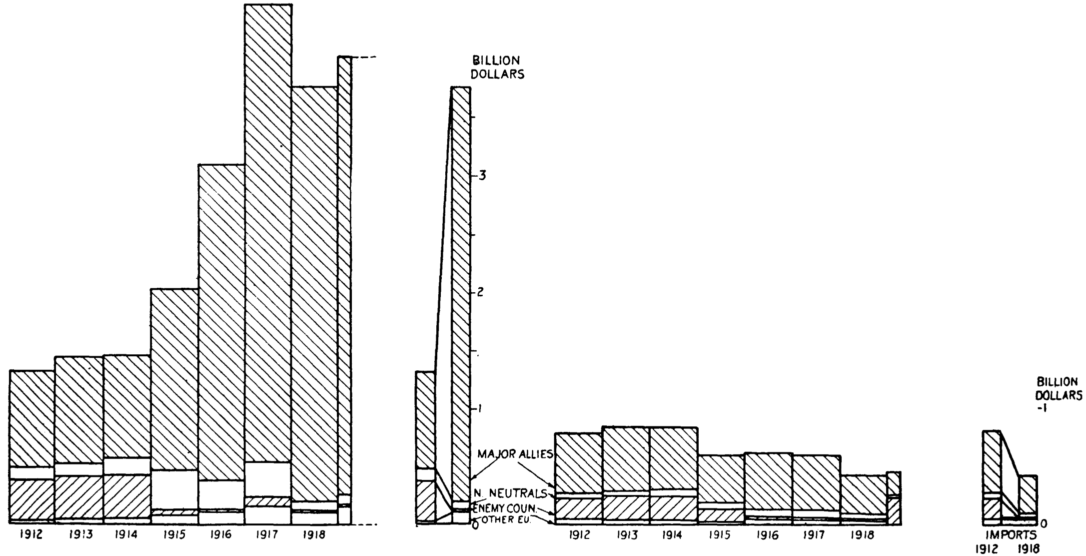
	United States Total Exports	United States Total Imports	Balance for the United States	Balance against the United States
1912	2.170	1.653	517	- - -
1913	2.428	1.813	615	- - -
1914	2.329	1.893	435	- - -
1915	2.716	1.674	1.042	- - -
1916	4.272	2.197	2.074	- - -
1917	6.227	2.659	3.567	- - -
1918	5.838	2.946	2.892	- - -

This jump from five hundred million dollars to three billion dollars is because of the enormous borrowings of Europe.



The stupendous surplus of exports to Europe and the increasing surplus of imports from South America and Asia.

5



UNITED STATES EXPORTS TO EUROPE & SIBERIA BY GROUPS OF COUNTRIES
1912-1918
(MILLION DOLLARS)

	1912	1913	1914	1915	1916	1917	1918
Major Allies	827	902	910	1,532	2,744	3,999	3,582
Northern Neutrals	136	164	150	328	245	288	38
Enemy Countries	329	350	367	30	.5	1	.3
Other Europe	34	44	44	75	112	144	120

UNITED STATES IMPORTS FROM EUROPE & SIBERIA BY GROUPS OF COUNTRIES
1912-1918
(MILLION DOLLARS)

	1912	1913	1914	1915	1916	1917	1918
Major Allies	509	557	555	402	475	472	314
Northern Neutrals	56	60	60	58	60	64	31
Enemy Countries	207	230	231	113	16	2	.3
Other Europe	57	58	63	48	66	75	69

MAJOR ALLIES: ····
- ···· United Kingdom
- ···· France
- ···· Belgium
- ···· Italy
- ···· Russia in Europe and Siberia

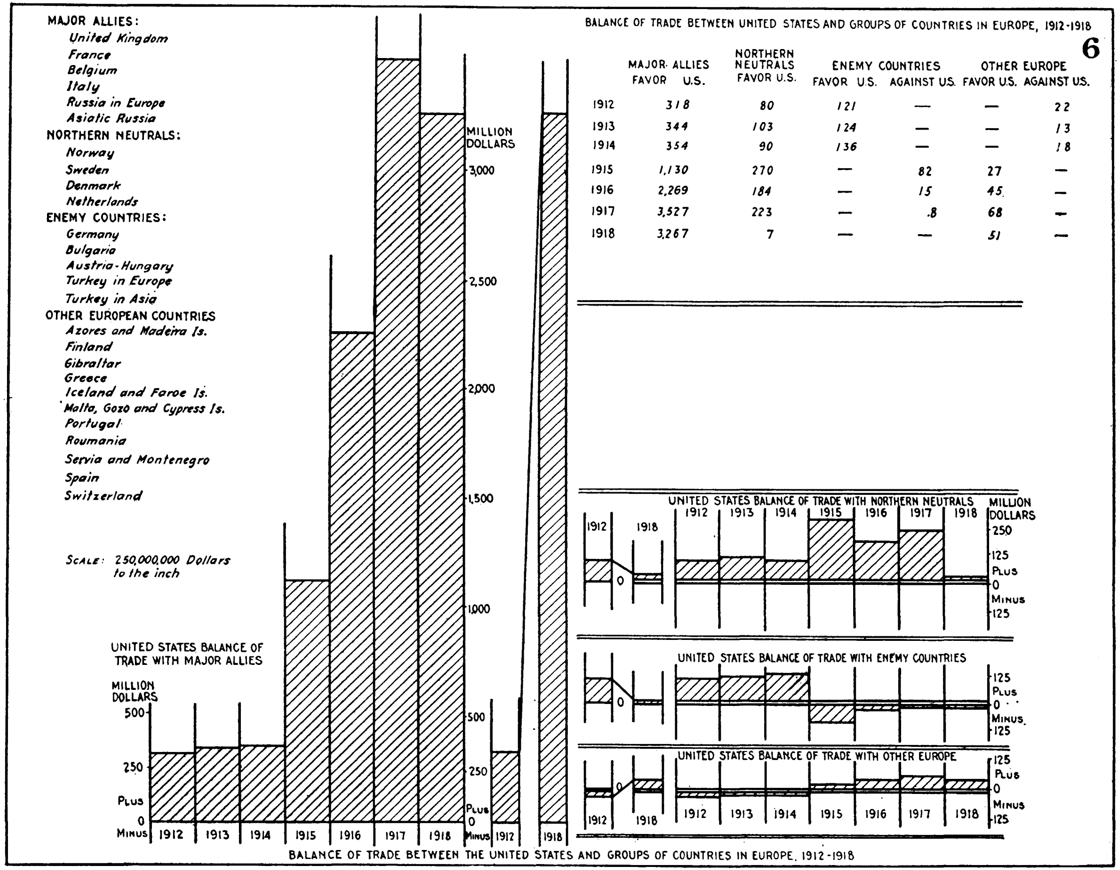
NORTHERN NEUTRALS ···
- ··· Norway
- ··· Sweden
- ··· Denmark
- ··· Netherlands

ENEMY COUNTRIES: ··
- ·· Germany
- ·· Austria-Hungary
- ·· Turkey in Europe
- ·· Bulgaria
- ·· Turkey in Asia

OTHER EUROPE ·

EUROPE
- ·· Austria-Hungary
- · Azores and Madeira Is
- ···· Belgium
- ·· Bulgaria
- ··· Denmark
- · Finland
- ···· France
- ·· Germany
- · Gibraltar
- · Greece
- · Iceland and Faroe Is
- ···· Italy
- · Malta, Gozo and Cypress Is.
- ··· Netherlands
- ··· Norway
- · Portugal
- · Roumania
- · Russia in Europe
- · Servia and Montenegro
- · Spain
- ··· Sweden
- · Switzerland
- ·· Turkey in Europe
- ···· United Kingdom
  - England
  - Scotland
  - Ireland

This graph exhibits the importance of our exports to the Allies and the service of the northern neutrals to the central empires, as shown by the amazing substitution of exports to northern neutrals for exports to central empires in 1915, 1916 and 1917. The influence of our War Trade Board closed this door in 1918.



BALANCE OF TRADE BETWEEN UNITED STATES AND GROUPS OF COUNTRIES IN EUROPE, 1912-1918

	MAJOR ALLIES FAVOR U.S.	NORTHERN NEUTRALS FAVOR U.S.	ENEMY COUNTRIES FAVOR U.S.	ENEMY COUNTRIES AGAINST U.S.	OTHER EUROPE FAVOR U.S.	OTHER EUROPE AGAINST U.S.
1912	318	80	121	—	—	22
1913	344	103	124	—	—	13
1914	354	90	136	—	—	18
1915	1,130	270	—	82	27	—
1916	2,269	184	—	15	45	—
1917	3,527	223	—	.8	68	—
1918	3,267	7	—	—	51	—

Nearly a tenfold increase in surplus to the Allies. The European trade was chiefly war trade—to Allies or to central empires via northern neutrals.

7

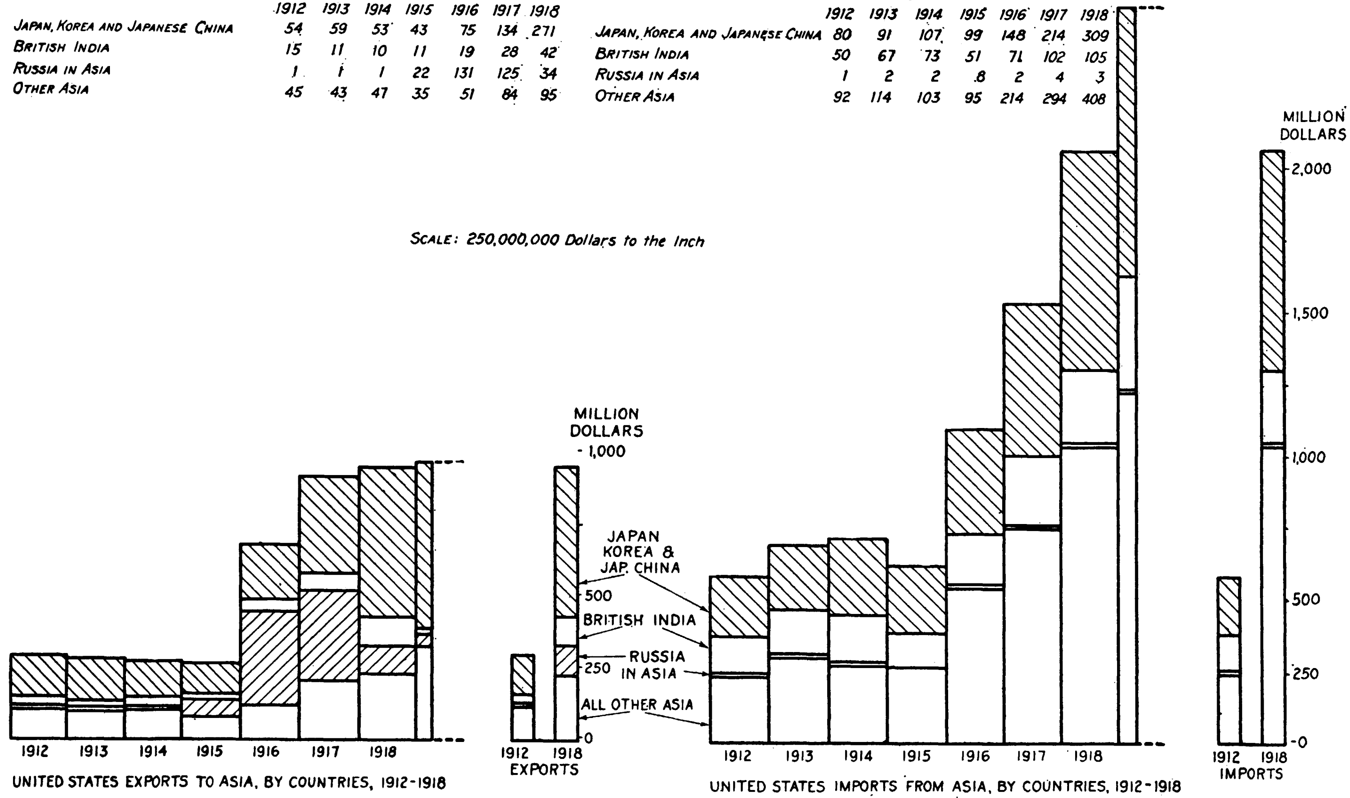
UNITED STATES EXPORTS TO ASIA, BY COUNTRIES, 1912-1918
(MILLION DOLLARS)

	1912	1913	1914	1915	1916	1917	1918
Japan, Korea and Japanese China	54	59	53	43	75	134	271
British India	15	11	10	11	19	28	42
Russia in Asia	1	1	1	22	131	125	34
Other Asia	45	43	47	35	51	84	95

UNITED STATES IMPORTS FROM ASIA, BY COUNTRIES, 1912-1918
(MILLION DOLLARS)

	1912	1913	1914	1915	1916	1917	1918
Japan, Korea and Japanese China	80	91	107	99	148	214	309
British India	50	67	73	51	71	102	105
Russia in Asia	1	2	2	.8	2	4	3
Other Asia	92	114	103	95	214	294	408

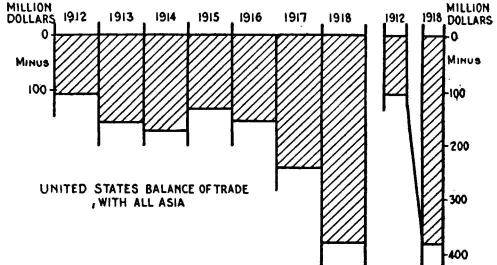
Scale: 250,000,000 Dollars to the Inch

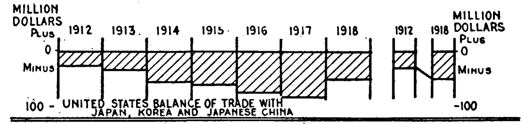


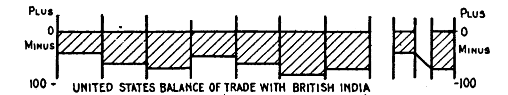
The rise in imports from Asia. The great war trade with Japan. The rise and fall of exports to Siberia which consisted of supplies for Russia. The constant absence of compensating imports from Siberia.

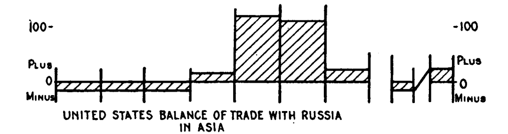
8

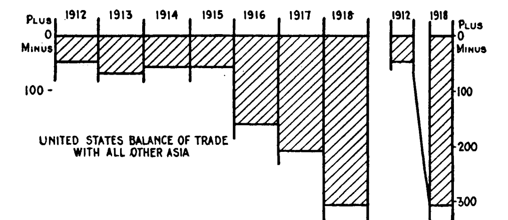
UNITED STATES FOREIGN TRADE BALANCE WITH ASIA 1912 - 1918











UNITED STATES EXPORTS, IMPORTS AND TRADE BALANCE WITH ALL ASIA 1912 - 1918
MILLION DOLLARS

	U.S. TOTAL EXPORTS	U.S. TOTAL IMPORTS	BALANCE FOR U.S.	BALANCE AGAINST U.S.
1912	117	225	—	108
1913	114	276	—	162
1914	113	286	—	173
1915	113	247	—	134
1916	277	437	—	160
1917	372	615	—	243
1918	443	826	—	383

UNITED STATES EXPORTS, IMPORTS AND TRADE BALANCE WITH JAPAN, KOREA AND JAPANESE CHINA
MILLION DOLLARS

	U.S. TOTAL EXPORTS	U.S. TOTAL IMPORTS	BALANCE FOR U.S.	BALANCE AGAINST U.S.
1912	54	80	—	26
1913	59	91	—	32
1914	53	107	—	54
1915	43	99	—	56
1916	75	148	—	73
1917	134	214	—	80
1918	270	309	—	39

UNITED STATES EXPORTS, IMPORTS AND TRADE BALANCE WITH BRITISH INDIA
MILLION DOLLARS

	U.S. TOTAL EXPORTS	U.S. TOTAL IMPORTS	BALANCE FOR U.S.	BALANCE AGAINST U.S.
1912	15	50	—	35
1913	11	67	—	56
1914	10	73	—	63
1915	11	51	—	40
1916	19	71	—	52
1917	28	102	—	74
1918	42	105	—	63

UNITED STATES EXPORTS, IMPORTS AND TRADE BALANCE WITH RUSSIA IN ASIA
MILLION DOLLARS

	U.S. TOTAL EXPORTS	U.S. TOTAL IMPORTS	BALANCE FOR U.S.	BALANCE AGAINST U.S.
1912	1.2	1.4	—	.2
1913	1	2	—	1
1914	1	2	—	1
1915	22	.9	21	—
1916	131	2	129	—
1917	125	4	121	—
1918	34	3	31	—

SCALE: 100,000,000 Dollars to the inch

UNITED STATES EXPORTS, IMPORTS AND TRADE BALANCE WITH ALL OTHER ASIA
(MILLION DOLLARS)

	U.S. TOTAL EXPORTS	U.S. TOTAL IMPORTS	BALANCE FOR U.S.	BALANCE AGAINST U.S.
1912	45	92	—	47
1913	43	114	—	71
1914	47	103	—	56
1915	35	95	—	60
1916	52	214	—	162
1917	84	294	—	210
1918	95	408	—	313

By passing goods to the United States, Asia has helped supply us with our huge surplus to warring countries. Russia in Asia should be considered for trade purposes as a part of Europe as it was a back door to Russia after the blockade of the Baltic and Black Seas.

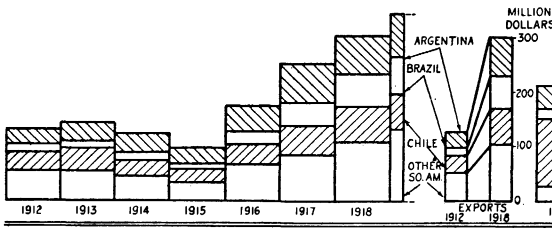
9

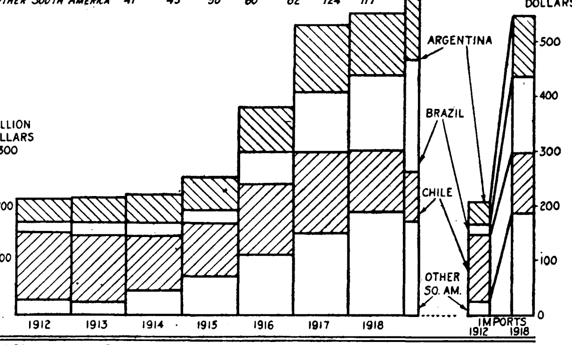
UNITED STATES EXPORTS TO SOUTH AMERICA BY COUNTRIES, 1912-1918
(MILLION DOLLARS)

	1912	1913	1914	1915	1916	1917	1918
ARGENTINA	53	52	45	32	65	81	108
BRAZIL	34	42	29	25	39	55	65
CHILE	15	16	17	11	24	44	63
OTHER SOUTH AMERICA	28	34	31	29	48	74	74

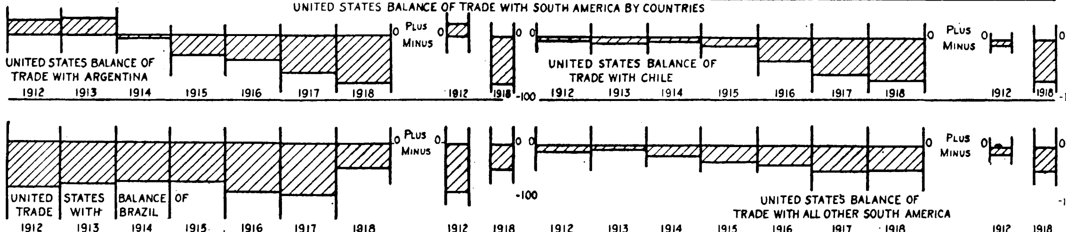
UNITED STATES IMPORTS FROM SOUTH AMERICA BY COUNTRIES, 1912-1918.
(MILLION DOLLARS)

	1912	1913	1914	1915	1916	1917	1918
ARGENTINA	29	26	45	73	112	152	195
BRAZIL	123	120	101	99	132	151	113
CHIL	20	27	25	27	64	113	141
OTHER SOUTH AMERICA	41	43	50	60	82	124	117





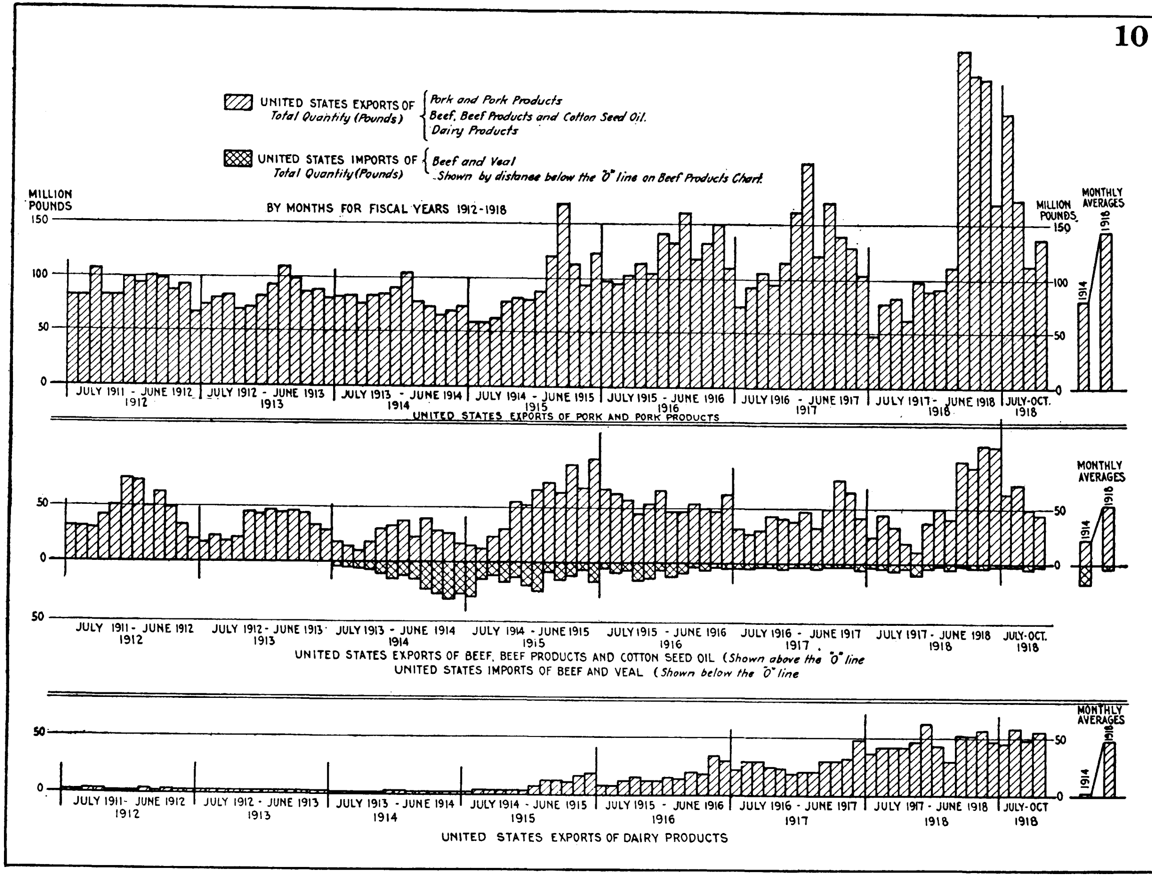
UNITED STATES BALANCE OF TRADE WITH SOUTH AMERICA BY COUNTRIES



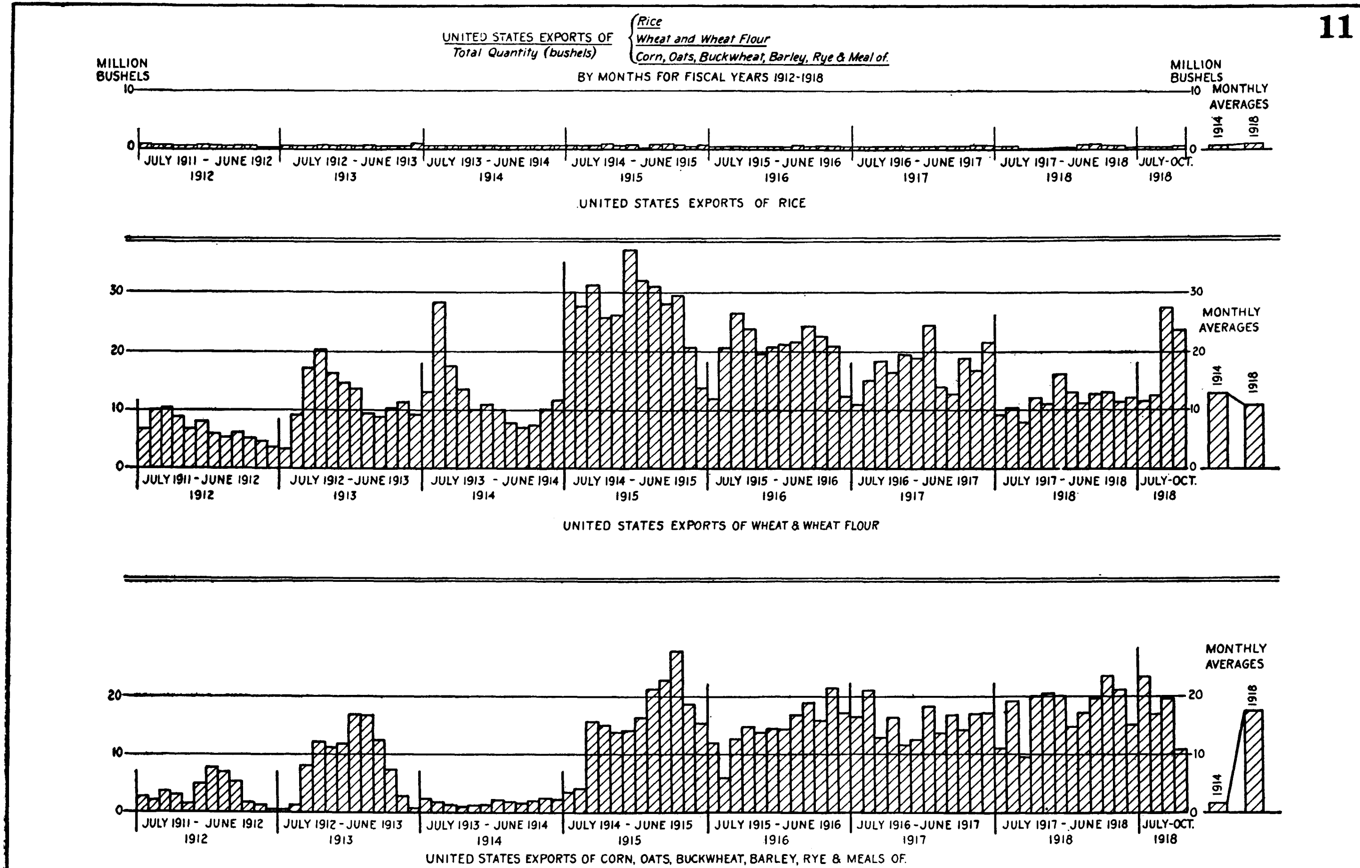
SCALE: IN ALL GRAPHS
100,000,000 Dollars to the Inch

(MILLION DOLLARS)	1912 FAVOR OF U.S.	1912 AGAINST U.S.	1913 FAVOR OF U.S.	1913 AGAINST U.S.	1914 AGAINST UNITED STATES	1915	1916	1917	1918
ARGENTINA	23	-	25	--	.1	41	46	70	87
BRAZIL	--	89	--	77	71	74	93	95	48
CHILE	--	4	--	11	8	16	40	69	78
ALL OTHER SOUTH AMERICA	--	12	--	8	18	31	34	49	42

As with Asia, large exports from South America to the United States have helped us equip this country and Europe. Our unfavorable balance with these important supply countries has steadily mounted. The trade balance with Argentina showed an interesting shift during the war. The British embargo on wool from her colonies sent the United States to Argentina for wool.



This shows, save for dairy products, rates of increase which will surprise us by their smallness. The food exports were concentrated on the Allies to an unprecedented extent. The substantial increase of pork exports in the spring of 1918 is a direct result of the national food production campaign of 1917. The war opened with American beef imports at a larger figure than exports. The imports nearly stopped and exports, which had been declining steadily, have slightly exceeded the 1912 amounts. In dairy products we have made an enormous relative increase but the total amount of 50 million pounds a month is but little more than twice the Danish export of 1916. American condensed milk has probably saved millions of lives in Belgium and Northern France. The high prices, the disbanding of armies and the increase in the use of vegetable fats may be expected to cut this sharply and the restoration of European herds will in a few years nearly or quite restore the pre-war condition which was one of steady decline in meat exports with a small or negligible export of dairy products.



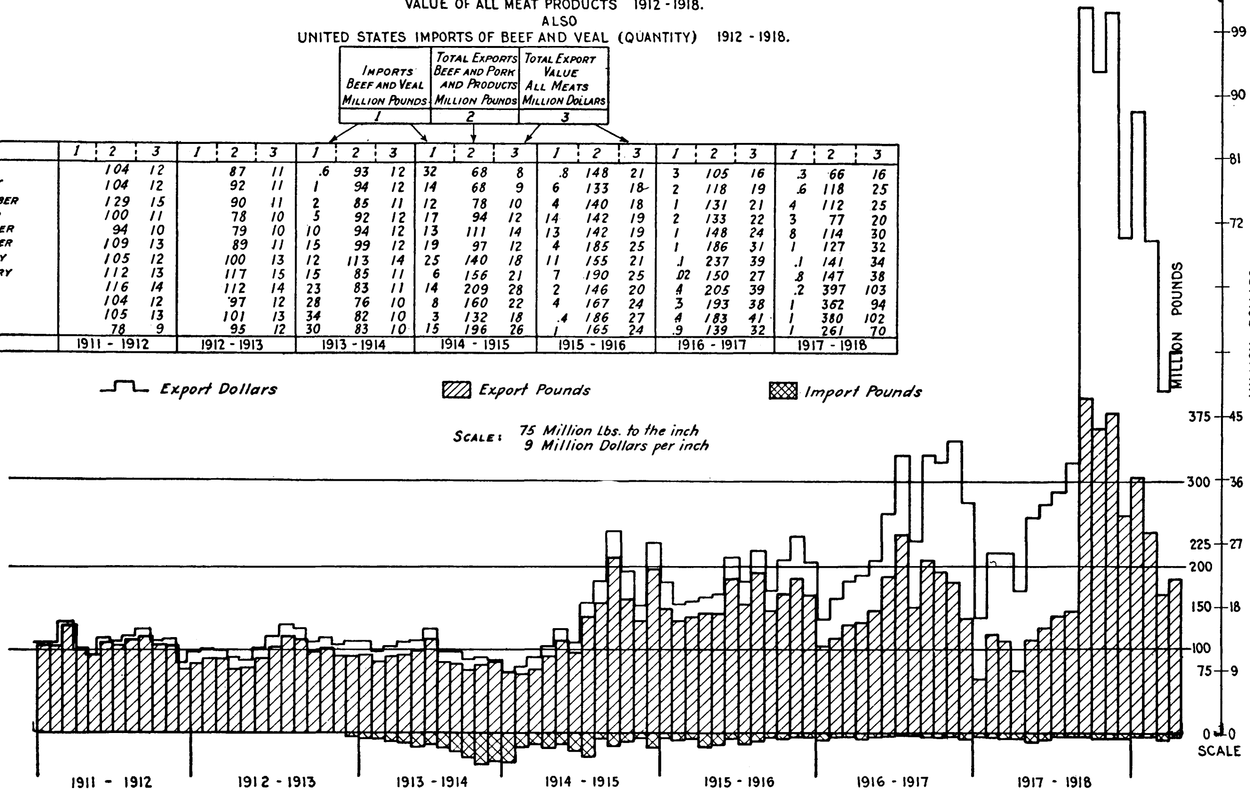
With a constant demand for wheat the great fluctuations of crop due to climate give a variable surplus. The two successive record-breaking crops of 1914 and 1915 and the mediocre ones in 1916, 1917 and 1918 gave the United States a steadily declining export of wheat throughout the war. Despite a famine demand, after the war we may be expected to resume our decline as a wheat exporter especially in view of England's restored agriculture. The wheat substitute grains and the fodder grains *viz.*, corn, oats, buckwheat, barley and rye were exported in much greater quantities. This too may be expected to decline after the harvests of 1919.

12

UNITED STATES EXPORTS OF BEEF AND PORK AND BEEF AND PORK PRODUCTS (QUANTITY) 1912 - 1918.
VALUE OF ALL MEAT PRODUCTS 1912 - 1918.
ALSO
UNITED STATES IMPORTS OF BEEF AND VEAL (QUANTITY) 1912 - 1918.

1	2	3
Imports Beef and Veal Million Pounds	Total Exports Beef and Pork and Products Million Pounds	Total Export Value All Meats Million Dollars

	1911 - 1912			1912 - 1913			1913 - 1914			1914 - 1915			1915 - 1916			1916 - 1917			1917 - 1918		
	1	2	3	1	2	3	1	2	3	1	2	3	1	2	3	1	2	3	1	2	3
July		104	12		87	11	.6	93	12	32	68	8	.8	148	21	3	105	16	.3	66	16
August		104	12		92	11	1	94	12	14	68	9	6	133	18	2	118	19	.6	118	25
September		129	15		90	11	2	85	11	12	78	10	4	140	18	1	131	21	4	112	25
October		100	11		78	10	5	92	12	17	94	12	14	142	19	2	133	22	3	77	20
November		94	10		79	10	10	94	12	13	111	14	13	142	19	1	148	24	8	114	30
December		109	13		89	11	15	99	12	19	97	12	4	185	25	1	186	31	1	127	32
January		105	12		100	13	12	113	14	25	140	18	11	155	21	.1	237	39	.1	141	34
February		112	13		117	15	15	85	11	6	156	21	7	190	25	.02	150	27	.8	147	38
March		116	14		112	14	23	83	11	14	209	28	2	146	20	4	205	39	.2	397	103
April		104	12		97	12	28	76	10	8	160	22	4	167	24	3	193	38	1	362	94
May		105	13		101	13	34	82	10	3	132	18	.4	186	27	4	183	41	1	380	102
June		78	9		95	12	30	83	10	15	196	26	1	165	24	.9	139	32	1	261	70



This graph, showing beef and pork exports combined, and the total value of meat exports, presents the quantity in the shaded area and the value in the red line —a good illustration of the way actual increase of goods and price inflation have combined to make a great value.